The Contributions of Intellectual Property to the U.S. Economy[*]

America today continues to confront a competitiveness challenge of too little economic growth and too few jobs. The good news is there is a future in which America can create millions of good, knowledge-intensive jobs connected to the world via international trade and investment. Doing so will require sound U.S. policies that are based on a sound understanding of how innovative American companies succeed in today's dynamic global economy. In particular, policymakers must understand the long-standing and increasingly important contributions that intellectual property (IP) and other intangibles make to American jobs and American standards of living—and must understand the value of a tax system that does not discriminate against the IP performed by American companies. Three central considerations should be kept in mind.

1. *IP has long played a central role in driving growth in U.S. output, jobs, and income—and this role will be even more important in the years ahead*. Discovering and developing new products and processes boosts output in existing companies and industries and creates entire new industries. This discovery and development has long created new jobs and higher standards of living for all American workers and their families. Maintaining IP's central contributions to the U.S. economy will require smarter public policy now and in the future, given a number of indicators that America's innovation strength is waning.

2. *U.S.-headquartered multinational companies, which create the large majority of America's IP, increasingly rely on their global operations to maximize the creativity and benefits of their U.S. inventions*. American companies with global operations have long performed the large majority of America's IP discovery and development. Increasingly central to America's IP success is the ability of its multinational companies to deploy their IP abroad. To maximize the impact of and return on their U.S. innovations, U.S. multinationals expand abroad not just through exports but also through their foreign-affiliate production and sales that rely on U.S.-parent IP. Using U.S. ideas abroad tends to complement, not substitute for, American IP investments—both in terms of the quantity and the quality of U.S. innovation. The potential is great for American IP activity to connect with the continued expansion of global markets; indeed, this potential may be critical in halting America's innovation ebb.

3. *Because foreign-affiliate production and sales tends to complement American IP investment, raising the U.S. tax burden on IP-related income of American companies with global operations—especially if this burden fell differentially on IP income compared to other sources of income—would tend to reduce the quantity and quality of IP activity in the United States. This would harm not just IP-intensive industries but the U.S. economy overall*. The logic that higher taxation of IP-related income would somehow boost IP activity in the United States is incorrect. A higher U.S. tax burden on IP-related income would stifle, not stimulate, the attractiveness of innovating in America. For America overall, this IP tax burden would also erode the strength of the U.S. economy, given IP's uniquely foundational role in boosting U.S. jobs and incomes. Today, amidst a still-fragile U.S. economic recovery, when the United States critically needs even more IP dynamism to boost output, jobs, and incomes, U.S. tax policy should not dampen this dynamism by discriminating against IP.

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